

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4249-04
Bill No.: Perfected HCS for HBs 1788 & 1882
Subject: Military Affairs; Revenue Dept.; National Guard; Retirement Systems and
Benefits - General; Taxation and Revenue - Income3
Type: Original
Date: April 16, 2008

Bill Summary: Would exempt military pensions from income taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$17,500,000)	(\$17,500,000)	(\$17,500,000)
Total Estimated Net Effect on General Revenue Fund	(\$17,500,000)	(\$17,500,000)	(\$17,500,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to BAP as a result of this proposal. BAP officials provided the following cost estimate for the proposal.

According to the FY 2006 Department of Defense Statistical Report on the Military Retirement System, there were 32,987 individuals receiving a military pension in Missouri, of which 14,516 were age 65 and over and 18,471 were under age 65. The average annual pension for the 65+ group is \$19,363. The average annual pension for those under 65 is \$18,376.

To exempt all of the pensions for those 65 and over, it would cost $(14,516 \text{ pensioners} \times (\$19,363 \text{ average annual pension} - \$6,000 \text{ existing pension exemption}) = \$193,984,421 \text{ in taxable pension income} \times 4.5\% \text{ effective tax rate}) \$8,729,298$.

To exempt all pensions for those under 65, it would cost $(18,471 \text{ pensioners} \times \$18,376 \text{ average annual pension} = \$339,431,962 \text{ in taxable pension income} \times 4.5\% \text{ effective tax rate}) \$15,274,438$.

The total cost to exempt all military pension regardless of age would be \$24 million (rounded). However, a portion of pensions for those 65+ is likely already exempted by the six-year phase-in of HB444 (2007). BAP estimates this as \$1.5 million.

Therefore, this proposal would reduce general and total state revenues by \$22.5 million (rounded) beginning in FY 2009.

In response to another proposal (HB 1882 LR 4601-01) BAP provided this estimate of fiscal impact:

According to the FY 2006 Department of Defense Statistical Report on the Military Retirement System, there were 32,987 individuals receiving military pensions in Missouri, totaling \$51,700,000 monthly, or \$620,400,000 annually. Assuming a 4.5% average marginal tax rate, total liability on military retirement benefits would be $(\$620,400,000 \times 4.5\%) \$27,900,000$. Under existing law, pension income of \$6,000 per taxpayer is already exempt from tax. That exemption would be $(32,987 \times \$6,000 \times 4.5\% \text{ average rate}) \$8,900,000$. These taxpayers may also be participants in the Circuit Breaker program, or may already be impacted by HB444 (2007). BAP cannot estimate these impacts.

ASSUMPTION (continued)

Oversight assumes the fiscal impact would be:

*	Estimated tax on military retirement benefits	\$27,900,000
*	Income tax exemption from current \$6,000 pension exemption	(\$8,900,000)
*	HB 444 tax exemption	<u>(\$1,500,000)</u>
	Net	<u>\$17,500,000</u>

Officials from the **Department of Public Safety, Missouri Veterans Commission** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization. DOR officials provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion of this request could be implemented utilizing four existing CIT III for three months for modifications to MINITS at a total estimated cost of \$50,232. ITSD/DOR assumes this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated they could not provide an estimate for this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reduction - pension exemption	<u>(\$17,500,000)</u>	<u>(\$17,500,000)</u>	<u>(\$17,500,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$17,500,000)</u>	<u>(\$17,500,000)</u>	<u>(\$17,500,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

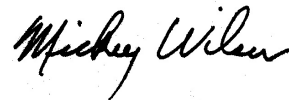
FISCAL DESCRIPTION

This proposal would exempt military pensions from income taxation.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Public Safety
 Missouri Veterans commission
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



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Director
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